

LESLIE COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2008

LESLIE COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

For the Year Ended June 30, 2008

	<u>Pages</u>
Independent Auditor's Report.....	1 - 2
Management's Discussion and Analysis.....	3 - 8
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Assets	9
Statement of Activities	10 - 11
Fund Financial Statements	
Balance Sheet – Governmental Funds	12
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets.....	13
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Funds	17
Statement of Net Assets – Proprietary Funds	18
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	19
Statement of Cash Flows – Proprietary Funds.....	20
Statement of Fiduciary Net Assets – Activity Funds	21
Notes to the Basic Financial Statements	22 - 42

LESLIE COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

For the Year Ended June 30, 2008

	<u>Pages</u>
Supplementary Information:	
Combining Statements – Nonmajor Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds	43
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	44
Statement of Revenues, Expenditures and Changes in Fund Balance – Leslie County High School Activity Fund	45
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Other School Activity Funds	46
Schedule of Expenditures of Federal Awards	47 - 49
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	50 - 52
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	53 - 54
Summary Schedule of Prior Audit Findings	55
Schedule of Findings and Questioned Costs	56 - 57
Management Letter	58 - 60

Chris Gooch

Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700

FAX : (606) 436-5701

INDEPENDENT AUDITOR'S REPORT

State Committee For School District Audits
Members of Leslie County Board of Education
Hyden, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Leslie County School District, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Leslie County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Leslie County School District as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2008, on our consideration of Leslie County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an

opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on pages 3 through 8, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Leslie County School District's basic financial statements. The combining and individual nonmajor fund financial statements and other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Leslie County School District. The combining and individual nonmajor fund financial statements, other supplemental information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied to the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in blue ink, appearing to read "Chris Gooch", with a stylized, flowing script.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 13, 2008

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2008

As management of the Leslie County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The beginning cash balance, including activity funds, for the District was \$2,498,701. The ending cash balance, including activity funds, for the District was \$9,074,015. The balance at June 30, 2008 includes \$8,263,441 in cash equivalents held for construction expenditures related to the new elementary school.
- Total federal expenditures for year ended June 30, 2008 was \$2,980,223 and for June 30, 2007 was \$2,853,455. Of this amount \$1,019,437 and \$1,192,095 was for the Title I program and \$742,312 and \$712,468 was for food service program expenditures in fiscal year ended 2008 and 2007, respectively.
- Interest revenue totaled \$400,549 for the current year ended and for the prior year the total interest revenue was \$81,019, the increase primarily a result of cash equivalent investments from bond proceeds related to construction of the new elementary school.
- The District's total long-term debt reflects an increase of \$8,500,000 related to the construction of the new elementary school. The District reduced its debt-service by \$988,380 during the year for which \$425,807 was Kentucky School Facilities Construction Commission portion. The total estimated cost for the new elementary school as reported on BG-1 filings is \$10,236,818.
- The Leslie County School District Finance Corporation entered into an agreement with KISTA to acquire three new buses, placed in service after the end of the fiscal year. The total bond principal is \$236,521. For 2008-09, the District is obligated to pay \$24,097 in principal and \$9,260 in interest on this debt.
- The Richard M Nixon Gymnasium suffered damage during the year as a result of a fire. The District had received \$514,502 in insurance reimbursements as of June 30, 2008.
- Total general fund revenue was \$11,924,753, exclusive of on behalf state payments totaling \$3,059,094 consisting primarily of state program (SEEK), property, utilities and motor vehicle taxes. Excluding on behalf payments, there were \$11,585,193 in general fund expenditures. For 2007, excluding on-behalf payments, total general fund revenue was \$10,304,595 and total general fund expenditures where \$10,116,119.

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2008

OVERVIEW OF FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds include activity funds. Proprietary funds include the school food service, daycare and preschool funds. All other activities are reported under governmental funds.

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2008

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. As of June 30, 2008, assets exceeded liabilities by \$9,970,845.

The greatest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and ongoing construction projects, where applicable), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net assets for the year ended June 30, 2008

Following are comparisons of governmental net assets:

	<u>At June 30,</u>	
	<u>2008</u>	<u>2007</u>
Current Assets	10,379,331	3,261,031
Noncurrent Assets	<u>14,612,153</u>	<u>13,535,856</u>
<u>Total Assets</u>	<u>24,991,484</u>	<u>16,796,887</u>
Current Liabilities	2,569,949	1,925,101
Noncurrent Liabilities	<u>12,450,690</u>	<u>5,280,924</u>
<u>Total Liabilities</u>	<u>15,020,639</u>	<u>7,206,025</u>
- Net Assets -		
Investment in Capital Assets (net of debt)	8,739,120	8,002,714
Restricted	144,231	765,895
Unreserved Fund Balance	<u>1,087,494</u>	<u>822,253</u>
<u>Total Net Assets</u>	<u>9,970,845</u>	<u>9,590,862</u>
<u>Total Liabilities & Net Assets</u>	<u>24,991,484</u>	<u>16,796,887</u>

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2008

The comparison reflects the following:

- Increase in current assets reflects a \$6,932,873 increase in cash and cash equivalents primarily a result of bond issue proceeds.
- Increase in non-current assets reflects \$1,695,804 additions for construction in progress and \$143,815 in technology related equipment additions.
- Increase in current liabilities include an increase in interest payable of \$301,075.
- Noncurrent liability changes reflect increases as a result of the \$8,500,000 elementary school bond issue.

Comments on budget comparisons

The following table presents a comparison of budget to actual for the general fund:

	<u>Final</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
From local sources			
Taxes	2,357,008	2,509,587	152,579
Earnings on investments	80,000	93,291	13,291
Other local revenue	745,421	540,423	(204,998)
Intergovernmental - state	8,794,596	11,882,424	3,087,828
Intergovernmental - indirect federal	17,000	24,263	7,263
<u>Total revenues</u>	<u>11,994,025</u>	<u>15,049,988</u>	<u>3,055,963</u>
Expenditures:			
Instructional	5,784,201	8,051,316	(2,267,115)
Student support services	685,836	872,526	(186,690)
Staff support services	631,996	800,824	(168,828)
District administration	302,746	331,623	(28,877)
School administration	829,660	1,027,483	(197,823)
Business support	256,994	324,074	(67,080)
Plant operation and management	1,899,623	1,797,335	102,288
Student transportation	1,519,311	1,450,019	69,292
Community service activities	6,074	6,524	(450)
Employee benefits	261,551	(17,437)	278,988
Contingency	1,228,587	-	1,228,587
<u>Total expenditures</u>	<u>13,406,579</u>	<u>14,644,287</u>	<u>(1,237,708)</u>
<u>Excess (deficit) of revenue over expenditures</u>	<u>(1,412,554)</u>	<u>405,701</u>	<u>1,818,255</u>

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2008

- Actual revenues and expenditures reflect unbudgeted state on-behalf payments for retirement, health and life insurance and technical education in the amount of \$3,059,094.
- Actual ad valorem tax revenues exceeded budget expectation by \$99,164.
- Other local revenue includes reimbursements from fire damages totaling \$515,000.

The following table presents a summary comparison of statement of activities for the fiscal years ended June 30, 2008 and 2007:

	At June 30,	
	<u>2008</u>	<u>2007</u>
Revenues:		
Local revenue sources	4,070,805	3,343,244
State revenue sources	14,059,088	13,883,387
Federal revenue	<u>3,273,804</u>	<u>2,773,659</u>
<u>Total revenues</u>	<u>21,403,697</u>	<u>20,000,290</u>
Expenses:		
Instruction	10,838,916	10,056,983
Student support services	1,111,738	942,421
Instructional support	1,167,705	1,245,686
District administration	332,660	254,075
School administration	1,029,786	942,401
Business support	370,747	330,403
Plant operation and management	2,281,988	1,878,353
Student transportation	1,883,130	1,838,382
Central office support	5,567	21,788
Community support	269,975	301,007
Food service operations	1,148,218	1,118,491
Day care operations	35,692	50,805
Interest on long-term debt	544,033	261,944
Employee Benefits	<u>3,577</u>	<u>6,462</u>
<u>Total expenses</u>	<u>21,023,732</u>	<u>19,249,201</u>
<u>Revenues in excess of expenses</u>	<u>379,965</u>	<u>751,089</u>

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2008

- Local revenues for year ended June 30, 2008 reflect \$515,000 fire insurance reimbursements.
- On behalf revenues and expenditures increase \$327,178 from the prior year.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$1,228,587 in contingency (9.16%).

Results of the current fiscal year and recent historical trends for the District were taken into account when preparing the subsequent year budget. No significant changes in revenue or expense items are foreseeable. The District's tax rates and tax base remain effectively the same. The District has assessed and considered underlying economical and funding factors at the federal, state, and local level and other non-financial areas including demographics, local economy and risk of loss of student population that may have a significant impact on the financial statements when preparing subsequent years budgets.

Questions regarding this report should be directed to the Superintendent or the Finance Officer at (606) 672-2397.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

At June 30, 2008

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets:			
- Current Assets -			
Cash and cash equivalents	9,159,478	127,316	9,286,794
Accounts receivable:			
Taxes - current	79,612	-	79,612
Taxes - delinquent	41,815	-	41,815
Other	302,619	345	302,964
Intergovernmental - State	2,985	-	2,985
Intergovernmental - Indirect Federal	646,068	7,857	653,925
Inventories	-	11,236	11,236
<u>Total current assets</u>	<u>10,232,577</u>	<u>146,754</u>	<u>10,379,331</u>
- Noncurrent Assets -			
Capital assets	24,104,485	1,714,348	25,818,833
Other assets	33,357	-	33,357
Less: accumulated depreciation	<u>(10,320,281)</u>	<u>(919,756)</u>	<u>(11,240,037)</u>
<u>Total noncurrent assets</u>	<u>13,817,561</u>	<u>794,592</u>	<u>14,612,153</u>
<u>Total assets</u>	<u>24,050,138</u>	<u>941,346</u>	<u>24,991,484</u>
Liabilities:			
- Current liabilities -			
Accounts payable	618,140	922	619,062
Current portion of accumulated sick leave	61,492	-	61,492
Deferred revenues	3,551	-	3,551
Current portion of bond/lease obligations	1,332,551	-	1,332,551
Interest payable	553,293	-	553,293
<u>Total current liabilities</u>	<u>2,569,027</u>	<u>922</u>	<u>2,569,949</u>
- Noncurrent liabilities -			
Noncurrent portion of bond/lease obligations	12,250,630	-	12,250,630
Noncurrent portion of accrued sick leave	200,060	-	200,060
<u>Total noncurrent liabilities</u>	<u>12,450,690</u>	<u>-</u>	<u>12,450,690</u>
<u>Total liabilities</u>	<u>15,019,717</u>	<u>922</u>	<u>15,020,639</u>
Net assets:			
Invested in capital assets, net of related debt	7,944,528	794,592	8,739,120
Restricted for:			
KFSCC escrow	132,995	-	132,995
Other	-	11,236	11,236
Unrestricted	952,898	134,596	1,087,494
<u>Total net assets</u>	<u>9,030,421</u>	<u>940,424</u>	<u>9,970,845</u>
<u>Total liabilities and net assets</u>	<u>24,050,138</u>	<u>941,346</u>	<u>24,991,484</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIESFor the Year Ended June 30, 2008

		Program Revenues		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions
	<u>Expenses</u>			
FUNCTIONS/PROGRAMS:				
- Governmental Activities -				
Instructional	10,838,916	-	(4,746,334)	-
Support services:				
Student	1,111,738	-	(362,033)	-
Instructional staff	1,167,705	-	(488,696)	-
District administration	332,660	-	(31,761)	-
School administration	1,029,786	-	(226,935)	-
Business support	370,747	-	(44,002)	-
Plant operation and management	2,281,988	-	(99,820)	-
Student transportation	1,883,130	-	(368,906)	-
Central office operations	5,567	-	-	-
Community services operations	269,975	-	(488,082)	-
Employee benefits	3,577	-	(3,577)	-
Interest on long-term debt	544,033	-	-	-
<u>Total governmental activities</u>	<u>19,839,822</u>	<u>-</u>	<u>(6,860,146)</u>	<u>-</u>
- Business-type Activities -				
Food service	1,148,218	(333,352)	(795,222)	-
Day care	35,692	(35,572)	-	-
<u>Total business-type activities</u>	<u>1,183,910</u>	<u>(368,924)</u>	<u>(795,222)</u>	<u>-</u>
<u>Total primary government</u>	<u>21,023,732</u>	<u>(368,924)</u>	<u>(7,655,368)</u>	<u>-</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES (continued)
For the Year Ended June 30, 2008

	<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
	(6,092,582)	-	(6,092,582)
	(749,705)	-	(749,705)
	(679,009)	-	(679,009)
	(300,899)	-	(300,899)
	(802,851)	-	(802,851)
	(326,745)	-	(326,745)
	(2,182,168)	-	(2,182,168)
	(1,514,224)	-	(1,514,224)
	(5,567)	-	(5,567)
	218,107	-	218,107
	-	-	-
	<u>(544,033)</u>	<u>-</u>	<u>(544,033)</u>
	<u>(12,979,676)</u>	<u>-</u>	<u>(12,979,676)</u>
	-	(19,644)	(19,644)
	-	(120)	(120)
	<u>-</u>	<u>(19,764)</u>	<u>(19,764)</u>
	<u>(12,979,676)</u>	<u>(19,764)</u>	<u>(12,999,440)</u>
General revenues:			
Taxes	2,755,709	-	2,755,709
Investment earnings	396,145	4,404	400,549
State and formula grants	9,677,524	-	9,677,524
Miscellaneous	<u>545,623</u>	<u>-</u>	<u>545,623</u>
<u>Total general revenues</u>	<u>13,375,001</u>	<u>4,404</u>	<u>13,379,405</u>
Change in net assets	395,325	(15,360)	379,965
Net assets - beginning (restated)	<u>8,635,096</u>	<u>955,784</u>	<u>9,590,880</u>
Net assets - ending	<u>9,030,421</u>	<u>940,424</u>	<u>9,970,845</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS

At June 30, 2008

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Other Gov't Funds</u>	<u>Total Gov't Funds</u>
Assets and resources:				
Cash and cash equivalents	1,275,236	(540,589)	8,424,831	9,159,478
Accounts receivable:				
Taxes - current	79,612	-	-	79,612
Taxes - delinquent	41,815	-	-	41,815
Other	302,619	-	-	302,619
Intergovernmental - State	-	2,985	-	2,985
Intergovernmental - Indirect Federal	-	646,068	-	646,068
 <u>Total assets and resources</u>	 <u>1,699,282</u>	 <u>108,464</u>	 <u>8,424,831</u>	 <u>10,232,577</u>
 Liabilities and fund balances:				
Accounts payable	97,366	104,913	415,861	618,140
Deferred revenue	-	3,551	-	3,551
 <u>Total liabilities</u>	 <u>97,366</u>	 <u>108,464</u>	 <u>415,861</u>	 <u>621,691</u>
 Fund balance				
Reserved for KFSCC escrow	-	-	132,995	132,995
Undesignated fund balance	1,601,916	-	7,875,975	9,477,891
 <u>Total fund balances</u>	 <u>1,601,916</u>	 <u>-</u>	 <u>8,008,970</u>	 <u>9,610,886</u>
 <u>Total liabilities and fund balances</u>	 <u>1,699,282</u>	 <u>108,464</u>	 <u>8,424,831</u>	 <u>10,232,577</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTRECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETSAt June 30, 2008

Total fund balance per fund financial statements	9,610,886
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but are reported in the statement of net assets.	13,817,561
Certain liabilities (such as bonds payable, accrued sick leave and accrued interest) are not reported in this fund financial statement because they are not due and payable, but are presented in the statement of net assets.	<u>(14,398,026)</u>
Net assets for governmental activities	<u><u>9,030,421</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2008

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Other Gov't Funds</u>	<u>Total Gov't Funds</u>
Revenues:				
From local sources:				
Taxes	2,509,587	-	246,122	2,755,709
Earnings on investments	93,291	-	302,854	396,145
Other local revenue	540,423	-	-	540,423
Intergovernmental - state	11,882,424	1,308,387	868,277	14,059,088
Intergovernmental - indirect federal	24,263	2,454,319	-	2,478,582
<u>Total revenues</u>	<u>15,049,988</u>	<u>3,762,706</u>	<u>1,417,253</u>	<u>20,229,947</u>
Expenditures:				
Instructional	8,051,316	2,700,931	-	10,752,247
Student support services	872,526	168,204	-	1,040,730
Staff support services	800,824	334,565	-	1,135,389
District administration	331,623	-	-	331,623
School administration	1,027,483	1,000	-	1,028,483
Business support	324,074	44,002	-	368,076
Plant operations and management	1,797,335	32,504	48,718	1,878,557
Student transportation	1,450,019	235,535	-	1,685,554
Central office support services	-	-	-	-
Community service activities	6,524	280,734	-	287,258
Educational specific	-	3,577	-	3,577
Employee benefits	(17,437)	-	-	(17,437)
New building construction	-	-	1,695,805	1,695,805
Debt service:				
Principal	-	-	988,380	988,380
Interest	-	-	252,218	252,218
<u>Total expenditures</u>	<u>14,644,287</u>	<u>3,801,052</u>	<u>2,985,121</u>	<u>21,430,460</u>
Excess (deficit) of revenues over expenditures	<u>405,701</u>	<u>(38,346)</u>	<u>(1,567,868)</u>	<u>(1,200,513)</u>
Other financing sources (uses):				
Bond proceeds	-	-	8,281,169	8,281,169
Operating transfers in	-	38,346	1,572,032	1,610,378
Operating transfers out	(241,658)	-	(1,368,720)	(1,610,378)
Gain (loss) on assets	5,200	-	-	5,200
<u>Total other financing sources (uses)</u>	<u>(236,458)</u>	<u>38,346</u>	<u>8,484,481</u>	<u>8,286,369</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	169,243	-	6,916,613	7,085,856
Fund balance - July 1, 2007	<u>1,432,673</u>	<u>-</u>	<u>1,092,357</u>	<u>2,525,030</u>
Fund balance - June 30, 2008	<u><u>1,601,916</u></u>	<u><u>-</u></u>	<u><u>8,008,970</u></u>	<u><u>9,610,886</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESFor the Year Ended June 30, 2008

Net change in total fund balances per fund financial statements.	7,085,856
--	-----------

Amounts reported for governmental activities in the statement of activities differences:

Capital outlays are reported as expenditures in the fund financial statements because they use current financial resources, but are presented as assets in the statement of activities and depreciated over their estimated useful economic lives. The difference is the amount by which depreciation exceeds capital outlays for the year.	872,293
---	---------

Interest expense on long-term debt is recognized in the fund financial statements when paid and accrued in the government wide financial statement of activities.	(291,815)
---	-----------

Bond proceeds are recorded as other financing sources in the fund financial statements but are presented as a long term liability in the government wide financial statements.	(8,281,169)
--	-------------

Long-term sick leave is recognized as accrued in the government wide financial statements.	21,780
--	--------

Bond principal payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net assets.	<u>988,380</u>
--	----------------

Change in net assets of governmental activities	<u><u>395,325</u></u>
---	-----------------------

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
Revenues:	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
From local sources:				
Taxes	2,127,182	2,357,008	2,509,587	152,579
Earnings on investments	80,000	80,000	93,291	13,291
Other local revenue	-	745,421	540,423	(204,998)
Intergovernmental - state	9,153,010	8,794,596	11,882,424	3,087,828
Intergovernmental - indirect federal	17,000	17,000	24,263	7,263
<u>Total revenues</u>	<u>11,377,192</u>	<u>11,994,025</u>	<u>15,049,988</u>	<u>3,055,963</u>
Expenditures:				
Instructional	5,673,889	5,784,201	8,051,316	(2,267,115)
Student support services	685,836	685,836	872,526	(186,690)
Staff support services	627,401	631,996	800,824	(168,828)
District administration	296,876	302,746	331,623	(28,877)
School administration	828,910	829,660	1,027,483	(197,823)
Business support	256,994	256,994	324,074	(67,080)
Plant operations and management	1,211,701	1,899,623	1,797,335	102,288
Student transportation	1,507,960	1,519,311	1,450,019	69,292
Community service activities	6,074	6,074	6,524	(450)
Employee benefits	261,551	261,551	(17,437)	278,988
Contingency	654,086	1,228,587	-	1,228,587
<u>Total expenditures</u>	<u>12,011,278</u>	<u>13,406,579</u>	<u>14,644,287</u>	<u>(1,237,708)</u>
Excess (deficit) of revenues over expenditures	<u>(634,086)</u>	<u>(1,412,554)</u>	<u>405,701</u>	<u>1,818,255</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	(30,000)	(30,000)	(241,658)	(211,658)
Gain (loss) on sale of assets	10,000	10,000	5,200	(4,800)
<u>Total other financing sources (uses)</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>(236,458)</u>	<u>(216,458)</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	<u>(654,086)</u>	<u>(1,432,554)</u>	<u>169,243</u>	<u>1,601,797</u>
Fund balance - July 1, 2007 - restated	<u>654,086</u>	<u>1,432,554</u>	<u>1,432,673</u>	<u>119</u>
Fund balance - June 30, 2008	<u>-</u>	<u>-</u>	<u>1,601,916</u>	<u>1,601,916</u>

Note:

State on-behalf payments, \$3,059,094, reflected in actual are not budget line items.

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
Revenues:	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Intergovernmental - state	1,052,044	1,449,902	1,308,387	(141,515)
Intergovernmental - indirect federal	2,101,221	2,308,337	2,454,319	145,982
<u>Total revenues</u>	<u>3,153,265</u>	<u>3,758,239</u>	<u>3,762,706</u>	<u>4,467</u>
Expenditures:				
Instructional	2,145,444	2,757,319	2,700,931	56,388
Student support services	175,353	175,353	168,204	7,149
Staff support services	304,594	311,437	334,565	(23,128)
School administration support services	-	-	1,000	(1,000)
Business support services	50,000	50,000	44,002	5,998
Plant operations and management	37,133	37,133	32,504	4,629
Student transportation	146,421	147,546	235,535	(87,989)
Central office support services	-	-	-	-
Community service activities	294,320	290,735	280,734	10,001
Educational specific	-	6,370	3,577	2,793
<u>Total expenditures</u>	<u>3,153,265</u>	<u>3,775,893</u>	<u>3,801,052</u>	<u>(25,159)</u>
Excess (deficit) of revenues over expenditures	<u>-</u>	<u>(17,654)</u>	<u>(38,346)</u>	<u>(20,692)</u>
Other financing sources (uses):				
Operating transfers in	-	30,000	38,346	8,346
Operating transfers out	-	-	-	-
<u>Total other financing sources (uses)</u>	<u>-</u>	<u>30,000</u>	<u>38,346</u>	<u>8,346</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	<u>-</u>	<u>12,346</u>	<u>-</u>	<u>(12,346)</u>
Fund balance - July 1, 2007	<u>-</u>	<u>499,980</u>	<u>-</u>	<u>(499,980)</u>
Fund balance - June 30, 2008	<u><u>-</u></u>	<u><u>512,326</u></u>	<u><u>-</u></u>	<u><u>(512,326)</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS – PROPRIETARY FUNDS

At June 30, 2008

	<u>Food Service Fund</u>	<u>Day Care Fund</u>	<u>Total</u>
Assets:			
- Current Assets -			
Cash and cash equivalents	116,554	10,762	127,316
Accounts receivable:			
Intergovernmental - indirect Federal	7,857	-	7,857
Other	-	345	345
Inventories	<u>11,236</u>	<u>-</u>	<u>11,236</u>
<u>Total current assets</u>	<u>135,647</u>	<u>11,107</u>	<u>146,754</u>
- Noncurrent Assets -			
Capital assets	1,714,348	-	1,714,348
Less: accumulated depreciation	<u>(919,756)</u>	<u>-</u>	<u>(919,756)</u>
<u>Total noncurrent assets</u>	<u>794,592</u>	<u>-</u>	<u>794,592</u>
<u>Total assets</u>	<u>930,239</u>	<u>11,107</u>	<u>941,346</u>
Liabilities:			
- Current Liabilities -			
Accounts payable	<u>870</u>	<u>52</u>	<u>922</u>
<u>Total current liabilities</u>	<u>870</u>	<u>52</u>	<u>922</u>
Net assets:			
Investments in capital assets	794,592	-	794,592
Reserve for inventories	11,236	-	11,236
Unreserved	<u>123,541</u>	<u>11,055</u>	<u>134,596</u>
<u>Total net assets</u>	<u>929,369</u>	<u>11,055</u>	<u>940,424</u>
<u>Total liabilities and net assets</u>	<u>930,239</u>	<u>11,107</u>	<u>941,346</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS – PROPRIETARY FUNDS

For the Year Ended June 30, 2008

	<u>Food service Fund</u>	<u>Day care Fund</u>	<u>Total</u>
Operating revenues:			
Lunchroom sales	333,352	-	333,352
Tuition from individuals	<u>-</u>	<u>35,572</u>	<u>35,572</u>
 <u>Total operating revenues</u>	 <u>333,352</u>	 <u>35,572</u>	 <u>368,924</u>
 Operating expense:			
Salaries and wages	564,268	24,225	588,493
Contract services	25,294	-	25,294
Materials and supplies	508,157	9,216	517,373
Depreciation	48,184	-	48,184
Other operating expenses	<u>2,315</u>	<u>2,251</u>	<u>4,566</u>
 <u>Total operating expenses</u>	 <u>1,148,218</u>	 <u>35,692</u>	 <u>1,183,910</u>
 <u>Operating income (loss)</u>	 <u>(814,866)</u>	 <u>(120)</u>	 <u>(814,986)</u>
 Nonoperating Revenue/(Expense):			
Federal grants	679,563	-	679,563
State grants & onbehalf payments	115,659	-	115,659
Interest income	<u>4,404</u>	<u>-</u>	<u>4,404</u>
 <u>Total nonoperating revenue/(expense)</u>	 <u>799,626</u>	 <u>-</u>	 <u>799,626</u>
 <u>Net income (loss)</u>	 <u>(15,240)</u>	 <u>(120)</u>	 <u>(15,360)</u>
 Net assets, July 1, 2007	 <u>944,609</u>	 <u>11,175</u>	 <u>955,784</u>
 Net assets, June 30, 2008	 <u><u>929,369</u></u>	 <u><u>11,055</u></u>	 <u><u>940,424</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

For the Year Ended June 30, 2008

	Food service <u>Fund</u>	Day care <u>Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from:			
Lunchroom sales	333,679	-	333,679
Tuition	-	35,227	35,227
Cash paid to/for:			
Employees	(564,268)	(24,225)	(588,493)
Supplies/Contractual	(553,780)	(10,082)	(563,862)
Other activities	(2,315)	(2,251)	(4,566)
 <u>Net cash provided by operating activities</u>	 <u>(786,684)</u>	 <u>(1,331)</u>	 <u>(788,015)</u>
Cash flows from capital and related financing activities:			
Purchases of capital assets	-	-	-
Disposal of capital assets	-	-	-
Cash flows from investing activities:			
Interest income	4,404	-	4,404
Cash flows from financing activities:			
Federal grants	679,804	-	679,804
State grants	115,659	-	115,659
 <u>Net cash provided by financing activities</u>	 <u>795,463</u>	 <u>-</u>	 <u>795,463</u>
Net increase (decrease) in cash	13,183	(1,331)	11,852
Cash, beginning of year	103,371	12,093	115,464
Cash, end of year	116,554	10,762	127,316
 Reconciliation of operating income (loss) to net cash provided (used) by operations:			
Operating income (loss)	(814,866)	(120)	(814,986)
Adjustments to reconcile operating income to cash provided (used) by operating activities:			
Depreciation	48,184	-	48,184
Changes in current assets/liabilities:			
Accounts receivable	327	(345)	(18)
Inventories	(2,582)	-	(2,582)
Accounts payable	(17,747)	(866)	(18,613)
 <u>Net cash provided by operating activities</u>	 <u>(786,684)</u>	 <u>(1,331)</u>	 <u>(788,015)</u>

Noncash transactions include \$104,551 on-behalf payments recognized for the school food service program.

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF FIDUCIARY NET ASSETS – ACTIVITY FUNDSAt June 30, 2008**Assets:**

Cash and cash equivalents	122,847
Accounts receivable	<u>196</u>

<u>Total assets</u>	<u>123,043</u>
---------------------	----------------

Liabilities:

Accounts payable	32
Due to individual student activity account funds	<u>123,011</u>

<u>Total liabilities</u>	<u>123,043</u>
--------------------------	----------------

Net assets:

Permanently restricted for scholarships	<u>-</u>
---	----------

<u>Total liabilities and net assets</u>	<u>123,043</u>
---	----------------

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Leslie County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Leslie County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding sources entities. However, the Board is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence, operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Leslie County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment or the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Leslie County School District Finance Corporation – On September 11, 1990, the Leslie County, Kentucky, Board of Education resolved to authorize the establishment of the Leslie County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Leslie County Board of Education also comprise the Corporations’ Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2008NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2008NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Grant Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2008NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)II. Proprietary Funds (Enterprise Funds)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). No amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

III. Fiduciary Fund Types (includes agency and trust funds)

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2008NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)Basis of Accounting (continued)

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and change in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenues.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2008, to finance the General Fund operations were \$.376 per \$100 valuation for real property, \$.427 per \$100 valuation for business personal property and \$.44 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2008NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

Compensated absence liabilities are recorded based on balances for classified and certified employees with twenty-seven or more years of experience at June 30, 2008.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. For government wide financial statements the long-term liability is reflected in the statement of net assets.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with and original maturity of 90 days or less, to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2008NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2008NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the bank balance of the District's cash and cash equivalents was \$10,718,532. Of the total cash balance, \$100,000 was covered by Federal depository insurance, \$2,142,471 was covered by a collateral agreement and collateral held by the pledging banks' trust departments in the District's name and the balance was uncollateralized. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

The US Bank Construction Fund accounts was established to disburse construction expenditures related to the new elementary school. The funds were held in First American money market funds, \$6,596,111 in government obligation funds and \$1,979,950 in certificates of deposit. At June 30, 2008, the funds are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2008NOTE C – CASH AND CASH EQUIVALENTS (continued)

Cash and cash equivalents at June 30, 2008 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Hyden Citizens Bank:		
General Operating Account	2,016,302	374,831
Hayes Lewis Elementary	24,651	24,651
Hyden Elementary	16,627	16,627
Leslie County High School	46,413	46,308
Leslie County Middle School	5,869	5,814
Stinnett Elementary	24,944	21,796
WB Muncy Elementary	7,665	7,651
US Bank:		
Construction Account	8,576,061	8,576,061
Cash registers - lunchrooms	-	276
<u>Total</u>	<u>10,718,532</u>	<u>9,074,015</u>

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that the District may not recover collateral securities. The District requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not retain any long-term investments.

Concentrations of credit risk are the risk of loss attributed to the magnitude of the District's investments in a single issuer. All of the organization's cash is held at a local financial institution except for \$8,576,061.38 held at U.S. Bank from debt service proceeds for construction of the new elementary school. These funds are invested as follows: \$6,596,111.60, First American Government Obligation Fund and \$1,979,949.78, U.S. Bank Certificate of Deposit. Some of the primary risks associated with these funds: a major change in interest rates; a default on a security or repurchase agreement held by the fund; proceeds from sales of collateral are less than the agreed-upon purchase price. Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The District does not hold any foreign investments.

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the School District Finance Corporation aggregating \$13,559,084.

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

The original amount of each issue, the issue date and interest rates are summarized as follows:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
Rev Series September 1996	\$ 240,000	5.00% - 5.375%
KISTA Series April 1999	270,000	3.70% - 4.45%
KISTA Series January 2000	469,445	4.30% - 5.30%
KISTA Series May 2000	340,000	4.75% - 5.90%
KISTA Series December 2000	199,156	4.15% - 4.60%
1998A Refunding Series	900,000	4.00% - 4.50%
1998B Refunding Series	6,175,000	4.00% - 4.50%
KISTA Series 2004	837,401	1.00% - 3.50%
KISTA Series 2005	233,280	3.00% - 3.625%
Rev Series September 2006	1,520,000	3.75% - 4.00%
Rev Series July 2007	8,500,000	3.70% - 4.125%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund and Building Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Leslie County Fiscal Court and the School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1990, the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations for the district, including amounts to be paid by the Commission, at June 30, 2008, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Leslie County School District</u>		<u>Kentucky School Facilities Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2008 - 09	717,251	181,345	537,203	362,688	1,798,487
2009 - 10	710,918	151,432	559,783	340,131	1,762,264
2010 - 11	685,719	123,373	591,498	316,520	1,717,110
2011 - 12	201,085	92,662	341,489	291,372	926,608
2012 - 13	191,487	85,536	355,491	277,369	909,883

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

<u>Year</u>	<u>Leslie County School District</u>		<u>Kentucky School Facilities Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2013 - 14	192,689	78,503	370,149	262,711	904,052
2014 - 15	121,907	71,255	385,415	247,446	826,023
2015 - 16	101,648	66,522	401,352	231,509	801,031
2016 - 17	107,181	62,450	412,819	215,002	797,452
2017 - 18	111,801	58,124	417,199	198,103	785,227
2018 - 19	116,094	53,566	434,906	180,646	785,212
2019 - 20	120,562	48,833	448,438	162,489	780,322
2020 - 21	123,407	43,954	436,593	144,513	748,467
2021 - 22	129,903	38,888	455,097	126,680	750,568
2022 - 23	136,302	33,563	473,698	108,104	751,667
2023 - 24	141,873	27,999	493,127	88,767	751,766
2024 - 25	146,371	22,161	513,629	68,425	750,586
2025 - 26	155,682	15,949	534,318	46,991	752,940
2026 - 27	152,512	9,593	532,488	25,107	719,700
2027 - 28	156,311	3,224	343,689	7,089	510,313
<u>Totals</u>	<u>4,520,703</u>	<u>1,268,932</u>	<u>9,038,381</u>	<u>3,701,662</u>	<u>18,529,678</u>

Following are changes in long-term debt:

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2008</u>
Revenue Series Sept 1996	150,000	-	10,000	140,000
KISTA Series April 1999	64,000	-	31,000	33,000
KISTA Series January 2000	146,451	-	52,447	94,004
KISTA Series May 2000	289,000	-	17,000	272,000
KISTA Series December 2000	82,827	-	21,263	61,564
1998A Refunding Series	315,000	-	100,000	215,000
1998B Refunding Series	2,720,000	-	605,000	2,115,000
KISTA Series 2004	576,089	-	80,022	496,067
KISTA Series 2005	184,097	-	21,648	162,449
Revenue Series Sept 2006	1,520,000	-	50,000	1,470,000
Revenue Series July 2007	-	8,500,000	-	8,500,000
<u>Total</u>	<u>6,047,464</u>	<u>8,500,000</u>	<u>988,380</u>	<u>13,559,084</u>

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

The Leslie County School District Finance Corporation issued \$8,500,000 school building revenue bonds dated July 1, 2007 for the construction of a new elementary school. \$8,281,169.05 of this amount was deposited directly into the District construction fund account. Total bond issue costs were \$218,830.95 that included an underwriter discount of \$161,830.95. Accrued interest of \$33,855.13 was deposited to the Bond fund. The state School Facilities Construction Commission participates in the bond issue. The total cost of the debt service is \$12,585,600.04 and the local portion of that cost is \$12,585,600.04. The issue has a twenty-year payment term.

The Leslie County School District participated in the KISTA Bond Pool Series of 2008 to assist in acquiring three new school buses for the district. The total bond principal was \$236,521 and the total cost of the debt service including interest is \$282,635.07. The buses were placed in service in the 2008-09 school year. Bond principal and interest due for 2008-09 respectively are \$24,097 and \$9,260.

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008 was as follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2008</u>
<u>Governmental Activities</u>				
Land	189,057	-	-	189,057
Land improvements	403,889	-	-	403,889
Buildings and improvements	16,883,152	-	-	16,883,152
Technology equipment	1,374,135	143,815	-	1,517,950
Vehicles	2,934,721	-	-	2,934,721
General equipment	479,912	-	-	479,912
Construction work in progress	-	1,695,804	-	1,695,804
<u>Totals at historical cost</u>	<u>22,264,866</u>	<u>1,839,619</u>	<u>-</u>	<u>24,104,485</u>
Less: accumulated depreciation				
Land and improvements	341,346	7,425	-	348,771
Buildings and improvements	5,851,965	382,632	-	6,234,597
Technology equipment	973,806	139,131	-	1,112,937
Vehicles	2,021,154	197,285	-	2,218,439
General equipment	383,515	22,022	-	405,537
<u>Total accumulated depreciation</u>	<u>9,571,786</u>	<u>748,495</u>	<u>-</u>	<u>10,320,281</u>
<u>Governmental Activities</u>				
<u>Capital Assets - Net</u>	<u>12,693,080</u>	<u>(1,091,124)</u>	<u>-</u>	<u>13,784,204</u>

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

NOTE E – CAPITAL ASSETS (continued)

<u>Business-Type Activities</u>	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2008</u>
Buildings and improvements	1,141,825	-	-	1,141,825
Food service and equipment	556,564	-	-	556,564
Technology equipment	<u>15,959</u>	<u>-</u>	<u>-</u>	<u>15,959</u>
<u>Totals at historical cost</u>	<u>1,714,348</u>	<u>-</u>	<u>-</u>	<u>1,714,348</u>
Less: accumulated depreciation				
Buildings and improvements	434,988	22,551	-	457,539
Food service and equipment	425,517	23,080	-	448,597
Technology equipment	<u>11,067</u>	<u>2,553</u>	<u>-</u>	<u>13,620</u>
<u>Total accumulated depreciation</u>	<u>871,572</u>	<u>48,184</u>	<u>-</u>	<u>919,756</u>
Business-Type Activities				
<u>Capital Assets - Net</u>	<u>842,776</u>	<u>(48,184)</u>	<u>-</u>	<u>794,592</u>

Depreciation expense was allocated to governmental and proprietary functions as follows:

Governmental functions:

Instructional	33,432
Student support services	71,008
Instructional staff support	32,316
District administration	1,037
School administration	1,303
Business support services	2,671
Plant operations and management	403,431
Student transportation	197,576
Central office support	5,567
Community service activities	<u>154</u>

Total depreciation expense - Governmental functions	<u>748,495</u>
---	----------------

Proprietary functions:

Food service operations	<u>48,184</u>
-------------------------	---------------

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2008**NOTE F – COMMITMENTS UNDER NONCAPITALIZED LEASES**

Commitments under operating lease agreements for equipment provide the minimum future rental payments as of June 30, 2008, as follows:

Year ending June 30:	
2009	127,707
2010	33,572
2011	17,993
2012	17,993
2013	<u>2,999</u>
<u>Total</u>	<u>200,264</u>

NOTE G – RETIREMENT PLANS

Kentucky Teachers Retirement System:

Pension Plan

Plan Description – The Leslie County Public Schools contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

Plan Description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical insurance benefits is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2008NOTE G – RETIREMENT PLANS (continued)

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding Policy – The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Leslie County Public School District's total payroll for the year was \$11,777,635. The payroll for employees covered under KTRS was \$9,113,156. For the year ended June 30, 2008, the Commonwealth contributed \$1,035,726 to KTRS for the benefit of the participating employees. The School District's contributions to KTRS for the year ending June 30, 2008 were \$158,553, which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholdings of 5.00% and a district contribution of 16.17% of the employee's total compensation subject to contributions. Total payroll for employee's covered under CERS was \$2,490,999.

The contribution requirement for CERS for the year ended June 30, 2008 was \$525,400 which consisted of \$400,849 from the District and \$124,551 from the employees.

Following is a summary of contributions paid on-behalf of the employees for the past three years:

<u>Year Ended</u> <u>June 30,</u>	<u>KTRS</u>		<u>CERS</u>
	<u>District</u>	<u>State</u>	
2008	158,553	1,035,726	400,849
2007	148,528	973,002	312,246
2006	150,028	1,023,107	266,492

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008

NOTE G – RETIREMENT PLANS (continued)

The “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to-date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions’ funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans’ status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS <u>as of June 30, 2007</u> (in millions of dollars)	CERS <u>as of June 30, 2007</u> (in millions of dollars)
Actuarial accrued liabilities	21,255.0	8,868.2
Actuarial value of assets	<u>15,285.0</u>	<u>7,107.1</u>
Unfunded (overfunded) actuarial accrued liabilities	<u>5,970.0</u>	<u>1,761.1</u>

Historical trend information showing KTRS’s and CERS’s progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2007 comprehensive annual financial reports.

As the Board is only one of several employers participating in the plan, it is not practical to determine the Board’s portion of the unfunded past service cost or the vested benefits of the Board’s portion of the plan assets.

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor’s review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction that the funds provided are being spent as intended and the grantors’ intent to continue their programs.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2008NOTE I – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE J – LITIGATION

The District is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate a material effect on the combined financial statements as a result of threatened, pending or ongoing litigation.

NOTE K – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Insurance for worker's compensation, errors and omissions, educator's legal liability, property (including vehicles) and general liability is carried through various agencies. Contributions to Workers' Compensation Insurance are based on premium rates established with the excess insurance carrier, subject to claims, experience modifications and a group discount amount.

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L – DEFICIT OPERATING/FUND BALANCES

The following funds had deficit balances at June 30, 2008:

None

The following funds had expenditures in excess of revenues at June 30, 2008:

Capital Outlay Fund	351,624
FSPK Building Fund	377,222
Leslie County High School Activity Fund	16,796
Leslie County Middle School Activity Fund	3,439
Stinnett Elementary School Activity Fund	11,504
WB Muncy Elementary School Activity Fund	7,597
School Food Service Fund	15,240
Daycare Fund	120

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2008NOTE M – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school District at risk for a substantial loss (contingency).

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Retire debt	203,312
Capital Outlay Fund	Debt Service Fund	Retire debt	117,260
Capital Outlay Fund	Construction Fund	Finance construction	353,516
FSPK Fund	Debt Service Fund	Retire debt	494,219
FSPK Fund	Construction Fund	Finance construction	403,725
General Fund	Special Revenue Fund	Technology match	<u>38,346</u>
			<u>1,610,378</u>

NOTE O – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2008 were as follows:

None

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2008NOTE P – ANNUAL FINANCIAL REPORT DIFFERENCES

The following is a reconciliation of the June 30, 2008, fund balances/retained earnings reported by the Board to the Kentucky Department of Education with that shown in the accompanying fund financial statements:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Proprietary Funds</u>
Fund Balance/Retained Earnings as reported to the Department of Education	1,381,087	(18)	7,862,954	135,406
Adjustment to Fund Balance/Retained Earnings				
(1) To reclassify & adjust cash	29,052	1,749	-	138
(2) To adjust accounts receivable	236,044	-	-	7,706
(3) To adjust accounts payable	(44,267)	500	146,015	-
(4) To adjust deferred revenue	-	(2,231)	-	-
(5) To adjust inventory	-	-	-	2,582
-6 To record net fixed assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>794,592</u>
Fund Balance/Retained Earnings per fund financial statements at June 30, 2008	<u>1,601,916</u>	<u>-</u>	<u>8,008,969</u>	<u>940,424</u>

NOTE Q – ON-BEHALF PAYMENTS

The following payments made by the state on behalf of employees of the District and for the benefit of the District are recognized in the government-wide financial statements as additional revenue and expenditures for the year ended June 30, 2008:

Governmental:

Kentucky Teacher's Retirement System	1,035,726
Health Insurance	1,638,903
Life Insurance	6,871
Technical Education	<u>377,594</u>

<u>Total</u>	<u>3,059,094</u>
--------------	------------------

Food Service on-behalf payments	<u>104,551</u>
---------------------------------	----------------

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)At June 30, 2008NOTE R – PRIOR PERIOD RESTATEMENT

The following restatement was made to government-wide beginning net assets at July 1, 2007:

General fund balance was increased \$18 to adjust for closed out prior year projects and agree the annual financial report and balance sheet as submitted to Kentucky Department of Education.

LESLIE COUNTY SCHOOL DISTRICTCOMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDSAt June 30, 2008

	SEEK Capital Outlay Fund	Building Fund	Construction Fund	Debt Service Funds	Total
Asset and resources:					
Cash and cash equivalents	<u>39,390</u>	<u>122,000</u>	<u>8,263,441</u>	<u>-</u>	<u>8,424,831</u>
Total assets and resources	<u>39,390</u>	<u>122,000</u>	<u>8,263,441</u>	<u>-</u>	<u>8,424,831</u>
Liabilities and fund balances:					
Accounts payable	<u>-</u>	<u>-</u>	<u>415,861</u>	<u>-</u>	<u>415,861</u>
- Fund balances -					
Restricted for KFSCC escrow	37,498	95,497	-	-	132,995
Unreserved fund balance	<u>1,892</u>	<u>26,503</u>	<u>7,847,580</u>	<u>-</u>	<u>7,875,975</u>
Total fund balances	<u>39,390</u>	<u>122,000</u>	<u>7,847,580</u>	<u>-</u>	<u>8,008,970</u>
Total liabilities and fund balances	<u>39,390</u>	<u>122,000</u>	<u>8,263,441</u>	<u>-</u>	<u>8,424,831</u>

LESLIE COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2008

	SEEK Capital Outlay <u>Fund</u>	Building <u>Fund</u>	Construction <u>Fund</u>	Debt Service <u>Funds</u>	<u>Total</u>
Revenues:					
From local sources:					
General real property tax	-	246,122	-	-	246,122
Interest income	-	-	302,854	-	302,854
Intergovernmental - State	<u>167,870</u>	<u>274,600</u>	<u>-</u>	<u>425,807</u>	<u>868,277</u>
<u>Total revenues</u>	<u>167,870</u>	<u>520,722</u>	<u>302,854</u>	<u>425,807</u>	<u>1,417,253</u>
Expenditures:					
Plant operations and management	48,718	-	-	-	48,718
New building construction	-	-	1,695,805	-	1,695,805
Bond principal	-	-	-	988,380	988,380
Bond interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>252,218</u>	<u>252,218</u>
<u>Total expenditures</u>	<u>48,718</u>	<u>-</u>	<u>1,695,805</u>	<u>1,240,598</u>	<u>2,985,121</u>
Excess (deficit) of revenues over expenditures	<u>119,152</u>	<u>520,722</u>	<u>(1,392,951)</u>	<u>(814,791)</u>	<u>(1,567,868)</u>
Other financing sources (uses):					
Bond proceeds	-	-	8,281,169	-	8,281,169
Operating transfers in	-	-	757,241	814,791	1,572,032
Operating transfers out	<u>(470,776)</u>	<u>(897,944)</u>	<u>-</u>	<u>-</u>	<u>(1,368,720)</u>
<u>Total other financing sources (uses)</u>	<u>(470,776)</u>	<u>(897,944)</u>	<u>9,038,410</u>	<u>814,791</u>	<u>8,484,481</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(351,624)</u>	<u>(377,222)</u>	<u>7,645,459</u>	<u>-</u>	<u>6,916,613</u>
Fund balance, July 1, 2007	<u>391,014</u>	<u>499,222</u>	<u>202,121</u>	<u>-</u>	<u>1,092,357</u>
Fund balance, June 30, 2008	<u>39,390</u>	<u>122,000</u>	<u>7,847,580</u>	<u>-</u>	<u>8,008,970</u>

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

LESLIE COUNTY HIGH SCHOOL ACTIVITY FUND

For the Year Ended June 30, 2008

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	Excess (Deficit) of Revenues over <u>Expenditures</u>	<u>Fund Balance</u> <u>July 1, 2007</u>	<u>Fund Balance</u> <u>June 30, 2008</u>
Academics	901	1,104	(203)	294	91
Art	42	78	(36)	68	32
Journalism	12,902	22,085	(9,183)	25,068	15,885
Juniors	4,069	4,205	(136)	653	517
National Honor Society	405	711	(306)	372	66
General Fund	21,284	27,975	(6,691)	8,484	1,794
Senior Class	724	810	(86)	86	-
Student Body Government	-	-	-	629	629
FCCLA	-	461	(461)	461	-
Drama Club	-	-	-	509	509
School to Careers	-	380	(380)	428	48
PTO	-	-	-	1,330	1,330
Project Sober	6,441	6,664	(223)	599	376
Extracurricular	49,310	51,322	(2,011)	4,549	2,538
Food Prep School Based					
Enterprise	-	249	(249)	439	190
Band	-	879	(879)	879	-
Baseball	8,931	8,608	323	3,064	3,387
Boys Basketball	10,681	11,265	(584)	1,220	636
BB Cheerleaders	3,007	3,912	(905)	905	-
Football	15,470	15,488	(19)	3,120	3,101
FB Cheerleaders	2,272	2,815	(543)	543	-
Girls Basketball	27,425	23,675	3,750	4,418	8,168
Softball	2,695	2,895	(200)	200	-
Track	11,335	11,120	214	1,550	1,764
Volleyball	6,795	7,111	(316)	2,575	2,259
Cross Country	3,501	1,291	2,210	-	2,210
Teacher Vending	2,262	2,147	115	662	777
<u>Sub-total</u>	190,453	207,249	(16,796)	63,105	46,308
Less: Interfund transfers	(11,051)	(11,051)	-	-	-
<u>Total</u>	<u>179,402</u>	<u>196,198</u>	<u>(16,796)</u>	<u>63,105</u>	<u>46,308</u>

This fund maintains accounts separate from MUNIS at June 30, 2008.

LESLIE COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCEOTHER SCHOOL ACTIVITY FUNDSFor the Year Ended June 30, 2008

	Hayes Lewis Elementary	Hyden Elementary	Leslie County Middle	Stinnett Elementary	W.B. Muncy Elementary	Total (Memorandum Only)
<u>REVENUES:</u>						
Activity funds	28,481	59,348	45,615	65,564	25,141	224,150
<u>EXPENDITURES:</u>						
Activity funds	<u>18,993</u>	<u>50,665</u>	<u>49,054</u>	<u>77,068</u>	<u>32,738</u>	<u>228,519</u>
Excess or (deficiency) of revenues over <u>expenditures</u>	9,488	8,682	(3,439)	(11,504)	(7,597)	(4,369)
Fund Balance, July 1, 2007	<u>15,163</u>	<u>7,945</u>	<u>9,253</u>	<u>33,464</u>	<u>15,248</u>	<u>81,073</u>
Fund Balance, June 30, 2008	<u>24,651</u>	<u>16,627</u>	<u>5,814</u>	<u>21,960</u>	<u>7,651</u>	<u>76,704</u>

These funds maintain accounts separate from MUNIS at June 30, 2008.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
<u>U. S. Department of Agriculture</u>				
Passed through State Department of Education:				
- Child Nutrition Cluster -				
School Breakfast Program	* 10.553	7760005 07	N/A	40,457
	* 10.553	7760005 08	N/A	163,236
				<u>203,693</u>
 School Lunch Program	* 10.555	7750002 06	N/A	100,016
	* 10.555	7750002 07	N/A	375,854
				<u>475,870</u>
 Summer Food Service Program for Children	* 10.559	N/A	N/A	<u>7,077</u>
Passed through State Department of Agriculture:				
Food Donation (non cash assistance)	10.550	N/A	N/A	<u>55,672</u>
 <u>Total U.S. Department of Agriculture</u>				<u>742,312</u>
<u>U.S. Department of Commerce</u>				
Direct				
(PRIDE) Personal Responsibility in a Desirable Environment				
- Environmental Education	11.420	2708	5,000	<u>3,480</u>
<u>U.S. Department of Justice</u>				
Passed through the Center for Rural Development				
Edward Byrne Memorial State and Local Law Enforcement				
Assistance Discretionary Grants Programs				
U.N.I.T.E.	16.580	3007	54,572	50,760
	16.580	3008	54,572	839
 <u>Total U.S. Department of Justice</u>				<u>51,599</u>
<u>U. S. Department of Education</u>				
Passed through State Department of Education:				
Comprehensive School Reform	84.332	3086	100,000	<u>12,894</u>
 Title 1	* 84.010	3107	944,423	74,992
	* 84.010	3107D	110,000	110,000
	* 84.010	3108	859,174	710,198
	* 84.010	3108D	148,155	95,984
	* 84.010	3108T	9,500	11,094

* - Indicates major programs

LESLIE COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

For the Year Ended June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
School Improvement, Part A	* 84.010	3206	8,493	15,516
	* 84.010	3207	28,992	1,368
	* 84.010	3203	5,600	285
				1,019,437
Title VI Innovative Program Strategies	84.298A	3347	3,692	2,818
-Special Education Cluster -				
IDEA - B Basic (Special Education Grants to States)	* 84.027	3377	455,162	328,356
	* 84.027	3378	447,483	160,961
				489,317
Special Education - Preschool	* 84.173	3437	26,217	3,309
	* 84.173	3438	21,942	23,825
				27,134
Total - Special Education Cluster				516,451
Rural/Low Income School Education Program	84.358	3507	56,549	21,355
	84.358	3508	56,549	32,624
				53,979
Tech Prep Education	84.243	3636	15,000	351
	84.243	3638	14,100	4,048
				4,399
Special Education - Personnel Development	84.323	3337U	30000	4,899
Gear Up	84.334A	3796G	5,780	198
	84.334A	3798G	7,900	6,363
				6,561
Improving Teacher Quality State Grants	* 84.367	4016	250,992	30,019
	* 84.367	4017	247,185	112,288
	* 84.367	4018	242,734	198,768
				341,075
Title IV - Safe and Drug Free Schools and Communities	84.186	4065	25,221	10,908
	84.186	4066	23,486	6,331
	84.186	4067	17,106	7,853
	84.186	4068	16,869	3,553
				28,645

* - Indicates major programs

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
Title II - D Education Technology	84.318X	4256	21,832	4,279
	84.318X	4257	10,569	269
	84.318X	4257C	35,922	33,906
	84.318X	4258	10,083	11,763
				50,217
- Direct -				
Grants for School Based Students Drug Testing	84.184D	5346D	46,000	25
21st Century Learning Centers	84.287A	5506	140,782	42,722
	84.287A	5507	140,782	89,936
	84.287A	5508	140,782	8,774
				141,432
<u>Total Department of Education</u>				2,182,832
<u>Total Federal Awards Expended</u>				2,980,223

NOTE A

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Leslie County School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

NOTE B

Non-monetary assistance is reported in the schedule at the fair value of the food donations disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations.

Chris Gooch

Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700

FAX : (606) 436-5701

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

State Committee for School District Audits
Members of Leslie County Board of Education
Hyden, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Leslie County School District as of and for the year ended June 30, 2008, which collectively comprise the Leslie County School District's basic financial statements and have issued our report thereon dated November 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and audit requirement prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Leslie County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not to purpose of expressing an opinion on the effectiveness of the Leslie County School District's internal control over reporting. Accordingly, we do not express an opinion on the effectiveness of the Leslie County School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Leslie

County School District's ability to initiate, authorize, record, process, or report financial data reliability in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Leslie County School District's financial statements that is more than inconsequential will not be prevented or detected by the Leslie County School District's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting noted as reference 2008-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Leslie County School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leslie County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Leslie County School District, in a separate letter dated November 13, 2008. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract – State Audit Requirements except for the following: Deposits at June 30, 2008 exceeded the bond of depository executed per KRS 160.570(1) and 702KAR 3:090.

Leslie County School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Leslie County School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board, management, the Kentucky Department of Education, the Kentucky State Committee for School District Audits and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in blue ink, appearing to read "Chris Gooch". The signature is fluid and cursive, with the first name "Chris" being more prominent than the last name "Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 13, 2008

Chris Gooch

Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700

FAX : (606) 436-5701

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

State Committee for School District Audits
Members of Leslie County Board of Education
Hyden, Kentucky

Compliance

We have audited the compliance of Leslie County School District, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Leslie County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Leslie County School District's management. Our responsibility is to express an opinion on Leslie County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Leslie County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Leslie County School District's compliance with those requirements.

In our opinion, Leslie County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Leslie County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Leslie County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Leslie County School District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider material weaknesses, as defined above.

This report is intended solely for the information of and use of Board, management, the Kentucky Department of Education, the Kentucky State Committee for School District Audits and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 13, 2008

LESLIE COUNTY SCHOOL DISTRICTSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGSFor the Year Ended June 30, 2008**2007-01**

Condition: Cash and other balance sheet annual financial reporting information did not agree to underlying documentation when presented for audit resulting in significant audit adjustments.

Criteria: End of the year reporting information should be reviewed and reconciled to underlying documentation and differences noted to ensure management awareness for any potential adjusting entries.

Cause: Management has not established effective monitoring procedures to document differences.

Effect: The annual financial report may not be accurate or reliable.

Recommendations: The District should enhance its controls over fiscal year end processing to include review of account balances for all fund types to ensure significant adjustments are entered or provide evidence that establishes knowledge that certain adjusting entries should be made to ensure reliability of the financial statements.

Management's Response: The District will enhance its controls procedures over fiscal year-end processing to include review of account balances for all fund types to ensure significant adjustments are posted or potential adjustments are acknowledged.

Current year Response: Reference 2008-1.

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS –

None

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2008- SUMMARY OF AUDIT RESULTS –

1. We have issued an unqualified opinion on the financial statements.
2. Control deficiencies in the internal control were disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No control deficiencies were disclosed by the audit in internal control over major programs.
5. We have issued an unqualified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under Section .510(a) of A-133.
7. Leslie County School District had the following major programs:
 - U. S. Department of Education
 - Passed through State Department of Education
 - Title I, CFDA number 84.010
 - Comprehensive School Reform, CFDA number 84.332
 - Special Education Cluster-
 - IDEA-B Basic, CFDA number 84.027
 - IDEA-B Preschool, CFDA number 84.173
 - Improving Teacher Quality State Grants, CFDA no. 84.367
 - U.S. Department of Agriculture
 - Passed through State Department of Education
 - School Nutrition Cluster -
 - School Lunch and Breakfast Program,
 - Summer Food Service Program for Children
 - CFDA numbers 10.553, 10.555 and 10.559
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee qualified as a low-risk auditee.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)For the Year Ended June 30, 2008- FINDINGS RELATED TO THE FINANCIAL STATEMENTS –**2008-01**

Condition:	Cash and other balance sheet annual financial reporting information did not agree to underlying documentation when presented for audit resulting in significant audit adjustments.
Criteria:	End of the year reporting information should be reviewed and reconciled to underlying documentation and differences noted to ensure management awareness for any potential adjusting entries.
Cause:	Management has not established effective monitoring procedures to document differences.
Effect:	The annual financial report may not be accurate or reliable.
Recommendations:	The District should enhance its controls over fiscal year end processing to include review of account balances for all fund types to ensure significant adjustments are entered or provide evidence that establishes knowledge that certain adjusting entries should be made to ensure reliability of the financial statements.
Management's Response:	The District will enhance its controls procedures over fiscal year-end processing to include review of account balances for all fund types to ensure significant adjustments are posted or potential adjustments are acknowledged.

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS –

None

Chris Gooch

Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700

FAX : (606) 436-5701

Leslie County Board of Education
Hyden, Kentucky

In planning and performing our audit of the financial statements of Leslie County School District for the year ended June 30, 2008, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operation efficiency. The memorandum that accompanies this letter summarized our comments and suggestions regarding those matters. A separate report dated November 13, 2008, contains our report on reportable conditions and material weaknesses in the District's internal control structure. This letter does not affect our report dated November 13, 2008 on the financial statements of the Leslie County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

A handwritten signature in blue ink, appearing to read "Chris Gooch", with a long horizontal flourish extending to the right.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 13, 2008

LESLIE COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2008**Prior Year Comments**

1. Copies of cancelled checks on file

Condition: The District's bank depository began providing electronic copies of cancelled checks during the fiscal year audited. However, only the front portion was provided.

Criteria: Front and back copies of cancelled checks be available for monitoring purposes.

Recommendation: Management should request front and back copies of cancelled checks be available.

Cause: Management had not requested both the front and back copies of the cancelled checks to accompany their monthly statements.

Effect: Management can more effectively monitor endorsements for a check disbursement.

Management's Response: Management requested and began receiving front and back copies of cancelled checks prior to release of the audit report.

Current Year Auditor comment: Reference management's response.

Current Year Comments

1. Completing state prescribed activity fund forms

Condition: Two ticket sales reports and one fundraising report test sampled at Hyden Elementary School were not complete. One fundraising report at Leslie County High School regarding pizza kits were not completed.

Criteria: State prescribed forms should be completed for all fundraising and ticket sales activities and be reconcilable to the activity fund's underlying documentation.

Recommendation: Personnel should ensure that fundraising and ticket sales reports are complete and reconcilable to the activity fund's underlying documentation.

Cause: The reports were not complete and did not indicate reconciliation to the activity fund's underlying documents.

LESLIE COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2008**Current Year Comments (continued)**

Effect: Without completed and reconciled forms, the risk is greater that fraud may occur.

Management's Response: Management will periodically perform site reviews of activity fundraiser and ticket sales reports and reconcile to the activity fund's underlying documents.

2. Monitoring contractor payments and 1099-Misc reporting

Condition: A W-9 form and 1099 form was not completed for a \$1,000 contract service arrangement disbursed by Hayes Lewis activity fund.

Criteria: All independent contractor service agreements should have a W-9 form and service agreement on file. Payments made at outlying schools should have a notification system in place to ensure all payments of this nature are captured for reporting.

Recommendation: The District should devise methods to ensure all applicable service contracts are captured and reported to regulatory authorities.

Cause: The District's current system for capturing and reporting contract service information is not capturing and reporting all contract service arrangements at outlying school districts.

Effect: Without a strengthened system for monitoring contractual agreements, the risk is greater that noncompliance with regulatory reporting may occur.

Management's Response: Management will periodically review activity fund disbursements for expenses of this nature and discuss with applicable personnel at outlying schools the information required by Central Office for reporting to regulatory authorities.